

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking in Implementation
of Public Utilities Code Section 390.

Rulemaking 99-11-022

**ADMINISTRATIVE LAW JUDGE'S RULING
REQUESTING COMMENTS ON THE NATURAL GAS INDICES
USED IN SHORT RUN AVOIDED COST FORMULAS**

Summary

This ruling sets aside the submission of this proceeding and provides parties an opportunity for comments on the gas indices used in the Short Run Avoided Cost (SRAC) transition formulas for Southern California Edison Company (Edison), Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E).

Background

Section 390 of the California Public Utilities Code requires that energy payments to qualifying facilities (QFs) be based on current California natural gas border price indices. Decision (D.) 01-03-067 adopted gas indices for Edison's, PG&E's and SDG&E's SRAC formulas based on gas prices at the Malin California border point plus intrastate transportation to Southern California, in place of gas indices using prices at the Topock border point. The Commission adopted this change as it found that the reduced liquidity in the Topock market, and the possibility of market power abuse on the El Paso pipeline did not reflect a robust market as required in D.96-12-028.

D.01-03-067 also ordered a workshop on the use of natural gas indices and a workshop report to the Commission. As discussed in the report, participants agreed that without prior arrangements electric generators, including QFs, could not buy and transport gas from Malin to Southern California. The report also discusses various options that might be used in determining gas indices for SRAC formulas.

With the expiration of gas contracts on the El Paso pipeline June 1, gas prices at Topock as published in Natural Gas Week and other publications have become comparable to prices at Malin plus intrastate transportation. Published gas prices now indicate a return to a competitive market at California border points.

Discussion

The workshop, held in April 2001, provided parties and other participants an informal opportunity to comment on the appropriate gas indices for use in SRAC formulas. Given the apparent return to stability in the gas market, parties should be given the opportunity to comment on the gas indices under these changed conditions.

Rules 63 and 84 of the Commission's Rules of Practice and Procedure provide that the submission of the proceeding may be set aside, and the proceeding may be reopened to take additional evidence. Therefore, any party which desires to file comments on the following questions may do so:

1. Is the gas market at the Topock border point currently competitive and liquid?
2. Are Southern California QFs purchasing gas at the Topock border point?

3. Are Southern California QFs purchasing gas at the Malin border point?
4. If you are a party recommending a return to Topock as a border point index, what are the volumes of gas transactions and prices during the last two years that indicate the Topock market is liquid?
5. Should the Malin gas price plus intrastate transport continue as a reasonable proxy for Topock index in Edison's, PG&E's, and SDG&E's SRAC formula?
6. Are there other border points for gas that should be considered in determining appropriate gas indices for use in SRAC formulas?
7. What is the modeling mechanism used in deriving published prices at border points?
8. How are the inputs to published prices at border points collected?
9. Are there alternative modeling mechanisms, and methods for collecting inputs, for use in deriving prices at border points?
10. Are there other alternative indices, such as gas price futures at particular border points for determining appropriate gas indices for use in SRAC formulas?
11. Should a weighted average cost of gas (WACOG) be used in determining gas indices?
12. If a WACOG is used, on what basis should WACOG be calculated?

All comments should comply with Section 390 of the Public Utilities Code. Comments shall be filed and served by December 10, 2001. E-mail versions shall be distributed to all parties.

IT IS RULED that:

1. The submission of this phase of Rulemaking 99-11-022 is set aside in order to provide parties an opportunity to comment on the appropriate gas index for use in Southern California Edison's Short Run Avoided Cost formula.

2. Parties desiring to provide comments on the questions listed in this ruling may do so. Any comments shall be filed and served by December 10, 2001

Dated November 26, 2001, at San Francisco, California.

/s/ BRUCE DEBERRY
Bruce DeBerry
Administrative Law Judge

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Administrative Law Judge's Ruling Requesting Comments on the Natural Gas Indices Used in Short Run Avoided Cost Formulas on all parties of record in this proceeding or their attorneys of record.

Dated November 26, 2001, at San Francisco, California.

/s/ JEANNIE CHANG
Jeannie Chang

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at

(415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.